

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Alternative Investments
Activity Status Report

ITEM NUMBER: 13

ATTACHMENT(S): 3

ACTION: _____

DATE OF MEETING: April 3, 2002

INFORMATION: X

PRESENTER(S): Réal Desrochers

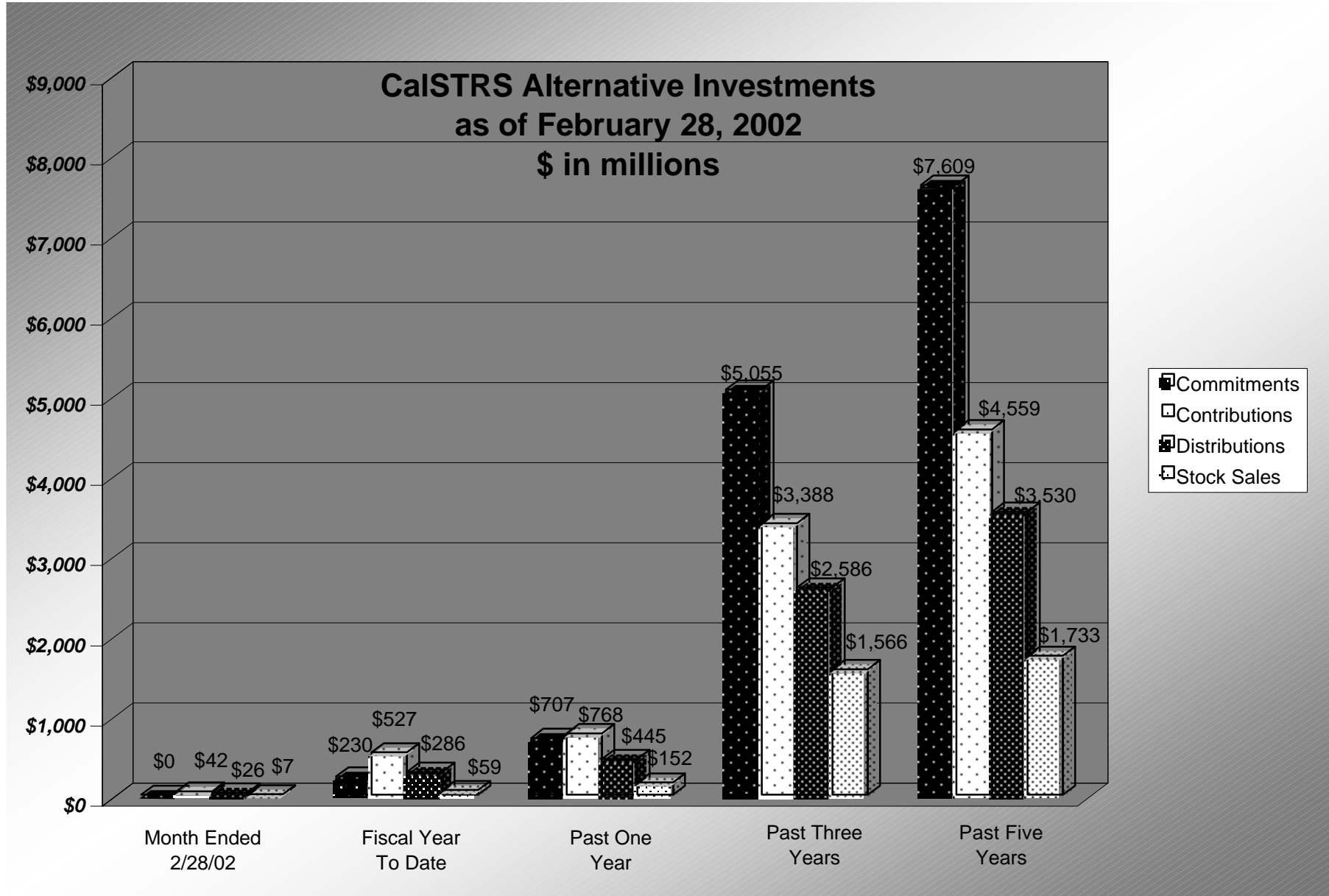
The table below contains Alternative Investment activity for the month of February 2002 and historical information for selected time periods.

	Month Ended 02/28/02	Fiscal Year To Date	Past One Year	Past Three Years	Past Five Years
<u>Commitments:</u>					
Partnerships	\$ 0	\$ 215,000,000	\$ 621,590,000	\$ 4,763,630,000	\$ 7,308,293,813
Co-Investments	0	12,500,000	82,879,584	219,011,854	219,011,854
Secondaries	0	2,047,424	2,047,424	72,820,841	82,114,669
	\$ 0	0			
	\$ 0	\$ 229,547,424	\$ 706,517,008	\$ 5,055,462,695	\$ 7,609,420,336
<u>Contributions:</u>					
Partnerships	\$ 38,897,763	\$ 485,138,318	\$ 684,925,828	\$ 3,135,737,135	\$ 4,282,158,915
Co-Investments	0	22,823,508	58,418,764	147,410,519	147,410,519
Secondaries	0	1,654,746	844,558	67,118,723	74,741,109
Mgmt. Fee (Outside)	3,093,093	17,158,413	23,900,435	38,153,286	54,787,350
	\$ 41,990,856	\$ 526,774,985	\$ 768,089,585	\$ 3,388,419,663	\$ 4,559,097,893
<u>Distributions:</u>					
Cash	\$ 20,126,969	\$ 231,210,182	\$ 334,791,133	\$ 1,107,426,806	\$ 1,774,908,365
Stock	5,806,025	54,321,945	109,951,326	1,479,024,784	1,754,732,003
	\$ 25,932,994	\$ 285,532,127	\$ 444,742,459	\$ 2,586,451,590	\$ 3,529,640,369
Stock Sales	\$ 6,760,626	\$ 59,337,560	\$ 152,185,487	\$ 1,566,484,394	\$ 1,733,363,721

The chart presented in Attachment 1 illustrates the total amount of capital that CalSTRS has committed and contributed to its limited partnerships, co-investments, and secondary interests for the five year period ending February 28, 2002. The chart also illustrates the amount of distributions received and stock sold over the past five years. For the five year period ending February 28, 2002, CalSTRS has received total distributions of over \$3.5 billion, representing 77% of contributed capital.

During the month of January, staff recommended a commitment of £25 million per year for three years to Alchemy Partners, subject to annual review and approval by staff. The recommendation was made in accordance with delegation of authority guidelines. The Executive Summary of this investment is provided in Attachment 2.

A list of the individual investments made since inception in Alternative Investments is included in Attachment 3. The investments made under staff delegation of authority appear first, followed by the investments approved by the Investment Committee.



Delegation #56

Alternative Investments
EXECUTIVE SUMMARY OF ACTION TAKEN
UNDER DELEGATION OF AUTHORITY
ALCHEMY PLAN

Action: Staff recommends that CalSTRS commit £25 million per year for three years to Alchemy Partners, subject to annual review and approval by staff.

Background: Alchemy Partners (“Alchemy” or the “Firm”) is seeking equity capital commitments totaling approximately £255 million per annum to invest in acquisition-oriented transactions primarily in the UK. Alchemy was formed in 1997 and is based in London, England. The Firm specializes in buy-ins, buy-outs, and to a limited extent, later stage development capital. Particular areas of specialization are turnaround situations and public to private transactions.

Alchemy’s investment team consists of seven partners and five executives. The Firm has completed over 60 transactions in over 40 companies with over £700 million invested to date.

The Alchemy Investment Plan is not a conventional fund structure. Investors make a commitment to the Plan for an annual amount and have the ability to terminate funding at any time with 12 months’ notice.

CalSTRS has not previously invested with Alchemy.

Analysis: Alchemy’s professionals are generalists and the Firm invests in most business sectors. Approximately 85% of Alchemy’s completed investments consist of management buy-in and buy-out situations. Of these situations, 15 out of 38 are situations where Alchemy took a public company private. Alchemy is considered the leader in the UK for executing these types of transactions. These public-to-private transactions typically involve out-of-fashion, non-high-growth, smaller-quoted public companies that have largely been neglected by public market institutional investors.

Alchemy distinguishes itself from other private equity firms in its willingness to tackle unique or difficult deals. In fact, the Firm welcomes complex, messy transactions and turnarounds and views difficulty as an opportunity, whereas other firms would shy away. With this, Alchemy has built a reputation and a niche for itself, resulting in minimal competition.

As of September 30, 2001, the Plan had a net IRR of 30%, which is in excess of *Venture Economics*’ upper quartile benchmark of 21.%.

Investment Thesis: Staff is recommending an investment in the Alchemy Plan for the following reasons:

- The Plan has produced estimated returns in excess of the *Venture Economics* upper quartile benchmark. Although the portfolio is still relatively young for the returns to be meaningful, the existing portfolio is performing in line with expectations at this stage.
- The Alchemy investment strategy provides a good fit in the CalSTRS portfolio given the firm's reputation, experience, and market niche for doing difficult transactions.
- CalSTRS' Alternative Investments International portfolio remains within the 10% to 25% target range with the inclusion of this proposed investment.
- Staff has received a positive investment recommendation from Pathway Capital Management.

Policy Compliance: This decision complies with the portfolio's policies and procedures, which were approved by the Investment Committee on June 3, 1998. Positive written recommendations by the Alternative Investments consultant and CalSTRS' staff have been documented. The investment analysis and due diligence were conducted in the manner previously reviewed and approved by the Investment Committee.

Recommendation: Staff recommends that CalSTRS commit £25 million per year for three years to Alchemy Partners, subject to annual review and approval by staff. CalSTRS' commitment is subject to the successful negotiation of partnership terms and legal review.

By:

Deanna C. Winter
Investment Officer

Date _____

Recommended:

Réal Desrochers
Director of Alternative Investments

Date _____

Approved:

Christopher J. Ailman
Chief Investment Officer

Date _____

Alternative Investments
Investments Done Under Delegation of Authority
(in \$000's)

Attachment 3
Investment Committee — Item 13
April 3, 2002

Partnership	Vintage Year	Fund Size (\$ MM)	CalSTRS' Commitment
NEA VI	1993	230	35,000
Kelso V	1994	710	56,019
Summit Sub. Debt	1994	141	10,000
Summit Ventures IV	1995	610	30,000
Alta VI	1996	159	20,000
Cornerstone IV	1996	556	40,000
NEA VII	1996	311	40,000
Austin V	1997	170	15,000
First Reserve VII	1997	244	25,000
GTCR V	1997	521	40,000
InterWest VI	1997	175	15,000
M/C III	1997	265	30,000
Summit Sub. Debt II	1997	720	20,000
TA/Advent VIII	1997	800	10,000
Austin VI	1998	293	22,000
NEA VIII	1998	560	50,000
WCAS VIII	1998	3,150	300,000
Blackstone II-2nd	1999	1,271	9,294
CGW IV	1999	405	40,000
Chisholm IV	1999	287	29,500
Concentra Inc.	1999	25	25,000
KKR 1987-2nd	1999	5,653	45,413
KKR 1996-2nd	1999	6,012	25,361
M/C Venture IV	1999	250	25,000
Madison Dearborn III	1999	2,173	300,000
NEA 9	1999	871	60,000
Spectrum III	1999	657	65,000
Summit Accelerator	1999	162	10,000
VantagePoint III	1999	500	45,000
Vestar IV	1999	2,525	100,000
Whitney IV	1999	975	100,000

Alternative Investments
Investments Done Under Delegation of Authority
(in \$000's)

Partnership	Vintage Year	Fund Size (\$ MM)	CalSTRS' Commitment
AdvisorTech Corp.	2000	\$ 17.5	\$ 17,500
Alta VIII	2000	927	45,000
APA VI (Patricof)	2000	1,002	100,000
Blackstone Comm. I	2000	2,019	275,000
Blackstone UTP Cap. Partner	2000	35	35,000
Carolina Broadband	2000	20	20,000
Cortec III	2000	332	30,000
Digital Access	2000	30	30,000
Em3 Corp.	2000	0.973	973
InnoCal II	2000	98	15,000
InterWest VIII	2000	750	75,000
M/C Venture V	2000	550	75,000
Navis V	2000	727	200,000
NEA 10	2000	2,300	200,000
OccMed Systems (CDC 2000)	2000	0.539	539
Spectrum IV	2000	1,760	150,000
TA IX	2000	2,000	50,000
THL V	2000	6,100	400,000
TPG Giant (Gemplus)	2000	7.5	7,500
VantagePoint IV	2000	1,100	150,000
WCAS IX	2000	3,900	400,000
Apax European V	2001	4,000	88,325
Blackstone IV	2001	5,000	215,000
CVC III	2001	3,500	200,000
First Reserve IX	2001	1,375	120,000
Force 10 Networks	2001	20	20,000
LBI Holdings I, Inc.	2001	5	5,000
Madison Dearborn IV	2001	4,036	300,000
NEA VIII-A	2001	150	25,000
Summit Ventures VI	2001	2,085	73,000
THL IV-2nd	2001	3,450	2,047

Alternative Investments
Investments Done Under Delegation of Authority
(in \$000's)

Partnership	Vintage Year	Fund Size (\$ MM)	CalSTRS' Commitment
Thoma Cressey VII	2001	555	100,000
TPG Endurance Partners	2001	12.5	12,500
Whitney RBHC	2001	20	20,000
Whitney V	2001	1,109	200,000
Total Delegation Portfolio:			\$ 5,294,970

Alternative Investments
Investments Approved by Investment Committee
(in \$000's)

Partnership	Vintage Year	Fund Size (\$ MM)	CalSTRS' Commitment
Corporate Partners	1988	1,396	100,000
Boston Ventures IIIA	1989	286	26,277
Charterhouse	1989	265	25,500
InterWest IV	1989	110	10,000
MLA III	1989	500	50,000
Warburg Investors	1989	1,775	100,000
WCAS V	1989	371	30,000
BCI Growth III	1990	136	15,000
NEA V	1990	199	25,000
Syncom II	1990	35	7,037
WCAS CP II	1990	354	30,000
Charterhouse-2nd	1991	265	6,635
GTC III-2nd	1991	235	4,634
Marlborough	1991	71	10,000
Whitney 1990	1991	136	17,288
Alta V	1992	161	20,000
Boston Ventures IIIA-2nd	1992	286	9,321
Boston Ventures IVA	1992	515	55,313
First Reserve VI	1992	184	25,000
M/C II	1992	167	30,000
Mayfield VII	1992	165	10,000
Summit Ventures III	1992	279	15,000
Bank Fund III	1993	125	10,000
Blackstone II	1993	1,271	81,834
FS Equity III	1993	560	60,000
InnoCal	1993	76	75,000
InterWest V	1993	175	15,000
Madison Dearborn	1993	550	50,000
WCAS VI	1993	604	50,000
Alpine	1994	\$ 61	\$ 60,000
Candover 1994	1994	309	31,234

Alternative Investments
Investments Approved by Investment Committee
(in \$000's)

Partnership	Vintage Year	Fund Size (\$ MM)	CalSTRS' Commitment
Charterhouse II	1994	291	46,636
GTCR IV	1994	312	35,000
PENMAN	1994	89	10,000
Warburg Ventures	1994	2,022	110,000
Domain Partners III	1995	125	10,000
ECI 5	1995	73	15,903
Phildrew 4th	1995	164	20,199
Stonington 1994	1995	992	92,241
WCAS VII	1995	1,426	150,000
BCI Growth IV	1996	175	25,000
Boston Ventures V	1996	808	90,000
Bridge Information Sys.	1996	30	30,000
CVC I	1996	630	40,000
Hines Horticulture	1996	17	17,000
THL III	1996	1,345	106,728
Blackstone III	1997	3,750	323,945
KKR 1996	1997	6,012	322,190
Madison Dearborn II	1997	925	60,000
OCM II	1997	1,500	25,000
WCAS CP III	1997	1,279	100,000
Alta VII	1998	272	30,000
Candover 1997	1998	850	131,880
CVC II	1998	2,500	300,000
First Reserve VIII	1998	265	100,000
FS Equity IV	1998	915	87,500
Kelso VI	1998	1,500	150,000
Summit Ventures V	1998	891	45,000
THL IV	1998	3,450	163,721
Thoma Cressey VI	1998	450	60,000
Cypress II	1999	2,475	278,125
BC Partners VII	2000	3,404	267,458

Alternative Investments
Investments Approved by Investment Committee
(in \$000's)

Partnership	Vintage Year	Fund Size (\$ MM)	CalSTRS' Commitment
Permira Europe II	2000	3,165	267,916
TPG III - Domestic	2000	3,489	200,000
TPG III - International	2000	3,489	100,000
TPG III - T ³	2000	512	100,000
Total Board Portfolio:			\$ 4,966,516